CONTENTS

INTRODUCTION	1
Welcome to the second edition of Finance for the Arts in Canada	1
About the Content	1
A Few Important Disclaimers	2
About the Presentation	2
Art and illustrations in this book Visit the Finance for the Arts in Canada Website!	3
Thanks and Acknowledgements	4
Biography of Heather C. Young	6
CHAPTER 1: FINANCIAL PLANNING CYCLE	9
Learning Goals	9
Financial Planning in the Arts	11
The Impact of COVID-19	15
A Model Financial Planning Cycle	15
Steps in the Financial Planning Cycle	16
This model assumes that your organization follows a multi-year strategic planning process.	18
Step One: Appraise Your Strategic Plan	18
One Common Method for Developing a Strategic Plan	18
Responsibility for Annual Appraisal of the Strategic Plan	19
Step Two: Review Departments	20
Artistic Programming	22
Production and Technical	22
Facility	23
Marketing	23
Fundraising	24
Government Grants Administration: General	24 25
Step Three: Draft the Annual Budget	25
Step Four: Secure Board Approval in Principle	26
Step Five: Prepare Major Funding Proposals	27
	28
Step Six: Revise Program and Budget Based on Funding Results Step Seven: Secure Board Final Approval on Revised Plan	28
	28
Step Eight: Launch Your Activities – Implement the Plan Step Nine: Review and Undate Periodically	20
DIED INTIE DEVIEW AND CIDATE FELICIDANY	/ -

Step Ten: Prepare a Final Report and Evaluation	32
Organizational Factors that Affect Planning Success	32
	34
Strengths, Weaknesses and Common Variations Planning Deadlines Often Collide with Peak Programming Activity	36
Timing of Funding Information	36
The Last Word Goes to Accounting	37
Take a Break!	39
CHAPTER 2: BUDGETING	41
Learning Goals	41
Budget Overview	43
What's a Budget?	44
Budget Format	44
Types of Budgets	46
Operating Budget	46
Project Budget	48
Capital Budget	50
Cash Budget	50
Ways of Conceptualizing the Budget	51
The Operating Budget as an Expression of the Strategic Plan and the Operational Plan	51
The Budget as a Policy Document	52
The Budget as a Pro Forma Income Statement	53
Budget Process: Roles, Responsibilities and Timeline	53
Benefits of Budgeting	55
The People Dimension: Qualities of a Good Budgeting Process	57
Internal Influences on Budgeting	59
External Influences on Budgeting	61
Research as a Key Tool in Budget Preparation	62
Methods for Getting Started	63
Start from Revenues	63
Start from Expenses	64
Work from Knowns to Estimates	64
Work from Most Important to Least Important	64
Start from Last Year's Budget	65
Combine These Approaches	65
Tips and Techniques	65
Scarcity Get Used to It!	65
Passing Judgment	66
Budget Conservatism	66
Highballs and Lowballs: Making Budget Estimates	67
Reasonability Calculations	68

Grant Requests and Multiple Budget Versions	69
"Plugging" the Budget	70
How to Finesse a Bottom-Line Problem	71
An HR Dimension of Budgeting	71
Some Deficits May Be OK	72
Spending Money to Make Money	73
Budgeting in Challenging Times: A Net Assets-Driven Approach	74
Finance "Driving the Bus"	75
A Five-Step Plan	76
Step One: Set a Target for Minimum Net Assets	76
Step Two: Quantify the Runway	77
Step Three: Identify Baseline Revenues for the Upcoming Year	77
Step Four: Identify Essential Costs for the Upcoming Year	78
Step Five: Prepare Your Discretionary Budget for the Upcoming Year	78
What If We've Already Expended All of Our Net Assets?	78
A Couple of Good Questions for You and Your Team	79
Chapter Bibliography	80
Take a Break!	81
CHAPTER 3: CASHFLOW	83
Learning Goals	83
Definition of Cashflow Planning	85
The Basic Process	86
Cash in Is Not Revenue; Cash out Is Not Expense	87
Drivers of Cashflow Planning	88
Roles, Responsibilities and Timeline	89
Benefits of Cashflow Planning	90
The Cashflow Document	92
Cashflow Projection How-To	96
Setting a Cash Safety Margin	98
Shaping the Cashflow Plan and Adhering to the Safety Margin	100
Relationship between the Financial Planning Cycle and Cashflow	102
Relationship between Programming and Cashflow	103
Relationship between the Operating Budget and Cashflow	103
Relationship between Balance Sheet Accounts and Cashflow	105
Profit Is Not Cash	106
Factors That Make Cashflow a Challenge for Not-for-Profit Arts Organizations	107
Cyclical Cashflow Problems	109
Cash-Poor Periods	112
Cash-Rich Periods	114
Take a Break!	118

CHAPTER 4: MANAGING SUCCESSFULLY THROUGHOUT THE YEAR	121
Learning Goals	121
Approaching Financial Management	123
Cultivating Good Routines	126
Achieving the Well-Tempered Financial Plan	130
The Whole and the Sum of the Parts	130
Revising the Budget	131
Evaluate Accounting Actuals as a Basis for Planning	132
Trend Analysis	132
Variance Analysis	134
Year-over-Year Difference	136
Hard and Soft Numbers	137
Direct and Indirect Revenues and Expenses	142
Incremental Revenues and Expenses	147
Fixed and Variable Costs	150
Fixed Costs	150
Variable Costs	152
Stair-Step Costs	154
Breaking Even	155
Chapter Bibliography	157
Take a Break!	158
CHAPTED 5. CTRUCTURE DROCECC AND MORE HOW CTANDARDS BLUCCO)D
CHAPTER 5: STRUCTURE, PROCESS AND MORE: HOW STANDARDS PLUS GOO PRACTICE CAN COMMUNICATE MEANING	ענ 161
Learning Goals	161
Writing for an Audience: Meeting Your Readers' Needs	163
Managers and Staff Board of Directors	163
Members	164
Public Funders	165 166
Private Funders	167
Lenders	167
Taxation and regulatory authorities	167
Designing the Chart of Accounts	169
Structuring Income Statement Accounts	169
Finding the Right Level of Detail	169
Recording Revenues and Expenses by Nature vs. Function	173
Strategies for Ordering Revenues and Expenses How It Works When You Cot It Bight	178
How It Works When You Get It Right Structuring Balance Sheet Accounts	181 182
Organizing Assets	182
Organizing Liabilities	183
Organizing Net Assets	184

Managing Asset and Liability Detail: Subledgers	186
Internally Prepared Statements and Reporting	188
Optimizing Your "Tech Stack" for Financial Reporting	189
Non-Numerical Strategies for Delivering Reports	189
Externally Prepared Statements and Reporting	190
Notice to Reader, or Compilation Engagement	192
Review Engagement	192
Audit	192
Statement of Cash Flows	193
Statement of Changes to Net Assets	193
Standardized Correspondence	194
Engagement Letter	194
Management Representation Letter Management Letter	194 195
· ·	195
Establishing Policy for Financial Reporting	
Chapter Bibliography	197
Take a Break!	198
CHAPTER 6: NET ASSETS	201
Learning Goals	201
Two Ways to Define Net Assets	203
Gross to Net Calculation	203
Sum of Operating Results	203
The Equivalence of These Two Calculations	204
Revenues and Expenses as an Elaboration of Net Assets	205
The Mechanics of the Closing Entry	207
The Planning Application: The Perils of Balanced Budgets	212
The Scenario	213
Year One	213
Year Two	216
Year Three	217
Commercial Business and the Equity Section	220
Not-for-Profit Organizations and the Net Assets Section	220
Externally Restricted	221
Internally Restricted	222
Unrestricted	223
Net Assets Invested in Capital Assets	224
Organizing the Net Assets Section	224
Illustrating the Utility of Not-for-Profit Net Assets Presentation	225
Considerations for Building Restricted Funds	229
Chapter Bibliography	233

CHAPTER 7: RATIO ANALYSIS	235
Learning Goals	235
Definition of a Ratio and Ratio Analysis	237
Quick Review: Calculating and Expressing Ratios	238
A Note on Percentages	240
Internal and External Uses of Ratio Analysis	241
Revenue and Expense Ratios	244
Evaluating Revenue and Expense Ratios	246
Making Observations	246
Drawing Conclusions	247
Tips And Techniques for Analysing Operating Statement Ratios	250
A More Complex Presentation	251
Past Year Comparison	254
Year-to-Date Actuals and Percentage of Budget Year to Date	255
Projected Actuals	256
Percentage Variance to Budget	256
Surplus or Deficit to Total Budget	258
Accumulated Surplus or Deficit to Total Budget	260
Current Ratio, or Working Capital Ratio	263
Percentage Games	267
More Ratios!	270
Quick Ratio, or Acid Test Ratio	271
Debt-to-Equity Ratio	271
Return on Equity Ratio	274
Chapter Bibliography	276
Take a Break!	277
CHAPTER 8: ACHIEVING FINANCIAL HEALTH	279
Learning Goals	279
What Is Financial Health?	281
The Secret to Achieving Financial Health	283
Healthy Operations	283
Not-for-Profit Capital Structure	284
Evaluating Statements for Financial Health	291
Indicators of Financial Health on the Balance Sheet	292
Net Assets	292
Working Capital	293
The 30-Day View Cash and Deferred Revenue	294 294
Indicators of Financial Health on the Income Statement	294 295
Operating Result: Surplus or Deficit	295

Volume	2.	Financial	Managem	en.

Related Revenue and Expense Items	295
Revenue Mix	296
Expense Mix	296
Year-over-Year Comparatives	297
Year-Over-Year Change to Balance Sheet Accounts	297
Assessing Areas of Strength and Weakness	299
Risk Management	299
Risk Management Basics	299
External Risk Factors	300
Internal Risk Factors	300
Protecting Assets	302
Strategies for Dealing with Risk	303
Create a Risk Scorecard as the Basis for a Risk Management Plan	303
Financial Risk Reduction Strategies	305
Addressing Deficit Situations	308
Operating Deficit vs. Accumulated Deficit	309
One-Time Project	309
One-Time Project in the Context of an Ongoing Operation	310
Capital Project Deficit	311
A Bad Year	311
Long-Term Sustainability Problems	312
Financial Health Checklist	313
Chapter Bibliography	315
Get Going!	317